

Potential Impact of Increased Child Support Distribution to Current and Former Welfare Families

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The Deficit Reduction Act of 2005 (DRA) includes state options that would increase the amount of child support distributed to current and former welfare families.

We examine two hypothetical scenarios:

- \$100 per month pass-through and disregard for one child and \$200 per month for two+ children.
- Distribution of all Federal Tax Refund Offset (FTRO) collections to former welfare recipients (*differs from DRA in that families would receive government share as well as family share*).

Data and Methodology

- Estimates were generated using the TRIM3 microsimulation model.
- 2005 March Current Population Survey (CPS), containing income data for CY 2004.
- TRIM3 corrects for CPS underreporting of SSI, TANF, child support (for TANF recipients), Food Stamps, Medicaid, and SCHIP.
- FTRO collections imputed using administrative data; adjusted to hit state targets developed from OCSE data.

Current Welfare Recipients

- To receive welfare, a family must assign its rights to child support to the state.
- Child support is split between the federal and state governments according to the state's FMAP.
- A state may choose to “pass-through” child support to the family, but must repay the federal government for the federal share.
- Beginning Oct 1, 2008 the federal share is waived for the first \$100 per month (one child) or \$200 per month (2+ children) of pass-through/disregard amounts.

State Pass-through Policy (2004)

- 27 states and DC had no pass-through.
- 13 states had \$50 pass-through and disregard.
- 4 states had full pass-through, although only 1 disregarded the full amount passed through when calculating the TANF benefit.
- 5 states transferred some child support to families through “fill-the-gap” policy.

Families Receiving TANF (2004)

- 2.9 million families received TANF cash assistance in at least one month of 2004.
- Of these, 515,000 (18%) had a child support collection in at least one month of the year while on TANF.
- 28% of TANF families with a child support collection had income <50% of the poverty threshold; 36% had income of 50-<100% of the poverty threshold.

Estimated Effect on Average Family Income
of \$100/\$200 Pass-through/Disregard (2004)
(TANF families with Child Support)

	Percent of Poverty		
	<50%	50-100%	100-200%
Average Income under 2004 Rules	\$6,555	\$11,425	\$19,097
\$100/\$200 Pass-through and Disregard			
Average Income	\$7,133	\$11,949	\$19,512
Increase	\$578	\$524	\$415
% Increase	9%	5%	2%

Behavioral Response

- A pass-through/disregard provides a greater incentive for custodial parents to seek support and nonresident parents to pay support.
- Based on prior research by the University of Wisconsin, we estimate that a \$100/\$200 pass-through and disregard could increase the number of TANF families with a child support collection by 48,000 (9.3%).

Estimated Anti-Poverty Effect of \$100/\$200 Pass-through and Disregard (2004)

	No Behavioral Response	Behavioral Response
<i>(dollars are in millions)</i>		
Increase in Family Income	\$247	\$283
Reduction in Poverty Gap	\$179	\$201
Reduction in Poverty Gap/ Increase in Family Income	.72	.71
Families Removed from Poverty (thousands)	3.4	3.5

Estimated Effect on Other Programs of \$100/\$200 Pass-through and Disregard (2004)

	No Behavioral Response	Behavioral Response
<i>(dollars are in millions)</i>		
Increase in Family Income	\$247	\$283
Reduction in Food Stamps	\$72	\$80
Reduction in Housing Sub.	\$25	\$29
Reduction in CCDF Sub.	\$0.5	\$0.5
Benefit Reduction/ Increase in Family Income	0.39	0.39

Estimated Net Benefits and Costs of \$100/\$200 Pass-through and Disregard (2004)

<i>(dollars are in millions)</i>	Behavioral Response?	
	No	Yes
Net Benefit Custodial Families	\$149	\$173
Net Cost Government	\$149	\$119

Federal/State Share of Pass-Through Costs

Pre-DRA:

- States pay full cost of pass-through/disregard.
- Federal government experiences savings in Food Stamps and Housing Subsidies.

DRA:

- Federal government pays over half the cost of child support distributed to welfare families.
- Federal government pays about 1/3 of the net cost (including savings to other programs).

Former Welfare Families

- Former welfare families receive all “current” child support and most past-due child support (“arrears”).
- However, the government retains all FTRO collections, until such point as all arrears owed to the government have been repaid.
- Beginning Oct 1, 2008, states can distribute the “family share” of FTRO collections to former welfare families first (prior to repaying the government share).

FTRO Scenario

- Shows effect of distributing *all* FTRO Collections to Former Welfare Families.
- Differs from the DRA because the family would receive the government share of arrears as well as the family share.

FTRO Estimates (2004)

If all FTRO collections were distributed to former welfare families in 2004:

- 612,000 additional families would receive a total of \$611 million in FTRO payments.
- The poverty gap would be reduced by \$135 million and 15,000 families would be removed from poverty.
- Average annual income would increase 10% for poor families receiving offset.

FTRO Estimates (continued)

- Annual SSI benefits would decrease by 2% and food stamp benefits by less than 1% for families receiving the FTRO.
- 8% of Medicaid FTRO and 2% to 17% of SCHIP FTRO recipients would lose 1 month of eligibility (1/3 to 1/2 of those losing Medicaid would be eligible for SCHIP).

Conclusion

More generous pass-through policy and distribution of FTRO collections to former welfare families would:

- increase custodial family income.
- reduce extent of poverty.
- reduce reliance on means-tested programs.
- increase government costs, but not as much as the net benefit to families if there is a behavioral response to the policy change.

Related Publications

“The Potential Impacts of Increasing Child Support Payments to TANF Families”

<http://www.urban.org/publications/411595.html>.

“Benefits and Costs of Increased Child Support Distribution to Current and Former Welfare Recipients” <http://aspe.hhs.gov/hsp/05/cs-dist-TANF/index.htm>.